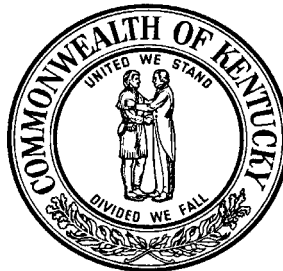


**REPORT OF THE AUDIT OF THE
MCCREARY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, STE 2
FRANKFORT, KY 40601
TELE. (502) 573-0050
FAX (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MCCREARY COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

The Auditor of Public Accounts has completed the McCreary County Fiscal Court audit for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$45,604 from the beginning of the year, resulting in a cash surplus of \$1,798,193 as of June 30, 2003 (the primary government and the component units combined).

Debt Obligations:

Short-Term note payable debt principal agreement totaled \$45,165 as of June 30, 2003.

Capital lease principal agreements totaled \$996,298 as of June 30, 2003. Future principal and interest payments of \$1,348,264 are needed to meet these obligations.

The Kentucky Infrastructure Authority debt principal agreement totaled \$3,396 as of June 30, 2003. Future principal and interest payments of \$3,477 are needed to meet these obligations.

Total bonded debt principal as of June 30, 2003, was \$4,890,000. Future collections of \$7,160,375 are needed over the next nineteen years to pay all bonded debt principal and interest.

Long-Term note payable debt principal agreement totaled \$293,374 as of June 30, 2003. Future principal and interest payments are not available due to a variable interest rate.

The Kentucky Local Correctional Facilities Authority debt principal agreement totaled \$ 206,145 as of June 30, 2003. Future principal and interest payments of \$303,088 are needed to meet these obligations.

Report Comments:

- The Original Budget And Budget Amendments Should Be Properly Recorded In Financial Statements
- The County Should Properly Prepare Quarterly Financial Statements
- The County Treasurer Should Prepare A Federal Monies Worksheet
- The Component Units Lack An Adequate Segregation Of Duties
- The County Should Have A Written Agreement To Protect Deposits
- The County Should Comply With The Period Of Availability On U.S. Housing And Urban Development - Disaster Recovery Initiative Grant
- The County Should Properly Monitor Grants Passed Down To Subrecipients

Deposits:

The fiscal court's deposits were not adequately insured due to the county not having a written collateral security agreement with the financial institution.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Blaine Phillips, McCreary County Judge/Executive

Members of the McCreary County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of McCreary County, Kentucky, as of June 30, 2003, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the McCreary County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, McCreary County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity as of June 30, 2003, of McCreary County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 27, 2004, on our consideration of McCreary County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Blaine Phillips, McCreary County Judge/Executive
Members of the McCreary County Fiscal Court

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of McCreary County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comments:

- The Original Budget And Budget Amendments Should Be Properly Recorded In Financial Statements
- The County Should Properly Prepare Quarterly Financial Statements
- The County Treasurer Should Prepare A Federal Monies Worksheet
- The Component Units Lack An Adequate Segregation Of Duties
- The County Should Have A Written Agreement To Protect Deposits
- The County Should Comply With The Period Of Availability On U.S. Housing And Urban Development - Disaster Recovery Initiative Grant
- The County Should Properly Monitor Grants Passed Down To Subrecipients

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 27, 2004

MCCREARY COUNTY OFFICIALS

Fiscal Year Ended June 30, 2003

Fiscal Court Members:

Blaine Phillips	County Judge/Executive
Judy Redden	Magistrate
Coy Taylor	Magistrate
Stanley Cox	Magistrate
Roger Phillips	Magistrate

Other Elected Officials:

Ralph P. Chaney	County Attorney
Richard Scott Jones	Jailer
Jo Kidd	County Clerk
Othel King	Circuit Court Clerk
Clarence Perry	Sheriff
Michael Stephens	Property Valuation Administrator
Teddy Coffey	Coroner

Appointed Personnel:

Donna Ross	County Treasurer
Sue Kidd	Finance Officer

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STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

MCCREARY COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2003

	Governmental Fund Type			Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Primary Government
<u>Assets and Other Resources</u>				
<u>Assets</u>				
Cash and Cash Equivalents	\$ 879,038	\$ 417,665	\$ 435,528	\$ 1,732,231
Notes Receivable (Note 4)		360,132		360,132
Total Assets	\$ 879,038	\$ 777,797	\$ 435,528	\$ 2,092,363
<u>Other Resources</u>				
Amounts to Be Provided in Future Years for:				
Capital Lease (Note 6-A)	64,755			64,755
Capital Lease (Note 6-B)	50,000			50,000
Capital Lease (Note 6-C)		128,400		128,400
Capital Lease (Note 6-D)		79,143		79,143
Capital Lease (Note 6-E)	194,000			194,000
Capital Lease (Note 6-F)	120,000			120,000
Capital Lease (Note 6-G)			360,000	360,000
Kentucky Infrastructure Authority (Note 7-A)	3,396			3,396
Bonds:				
Series 1999 (Note 7-B)			4,461,715	4,461,715
Long-Term Notes Payable (Note 7-C)				
Kentucky Local Correctional Facilities Authority (Note 8)	206,145			206,145
Total Other Resources	\$ 638,296	\$ 207,543	\$ 4,821,715	\$ 5,667,554
Total Assets and Other Resources	\$ 1,517,334	\$ 985,340	\$ 5,257,243	\$ 7,759,917

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

	Totals (Memorandum Only)
Component Units	Reporting Entity
\$ 115,942	\$ 1,848,173
	360,132
\$ 115,942	\$ 2,208,305
	64,755
	50,000
	128,400
	79,143
	194,000
	120,000
	360,000
	3,396
	4,461,715
293,374	293,374
	206,145
\$ 293,374	\$ 5,960,928
\$ 409,316	\$ 8,169,233

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
 ARISING FROM CASH TRANSACTIONS
 June 30, 2003
 (Continued)

	Governmental Fund Type			Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Primary Government
<u>Liabilities and Equity</u>				
<u>Liabilities</u>				
Short-Term Notes Payable (Note 5)	\$	\$	\$	\$
Capital Lease (Note 6-A)	64,755			64,755
Capital Lease (Note 6-B)	50,000			50,000
Capital Lease (Note 6-C)		128,400		128,400
Capital Lease (Note 6-D)		79,143		79,143
Capital Lease (Note 6-E)	194,000			194,000
Capital Lease (Note 6-F)	120,000			120,000
Capital Lease (Note 6-G)			360,000	360,000
Kentucky Infrastructure Authority (Note 7-A)	3,396			3,396
Bonds:				
Series 1999 (Note 7-B)			4,890,000	4,890,000
Long-Term Notes Payable (Note 7-C)				
Kentucky Local Correctional Facilities Authority (Note 8)	206,145			206,145
Total Liabilities	\$ 638,296	\$ 207,543	\$ 5,250,000	\$ 6,095,839
<u>Equity</u>				
Fund Balances:				
Reserved		777,797	7,243	785,040
Unreserved	879,038			879,038
Total Equity	\$ 879,038	\$ 777,797	\$ 7,243	\$ 1,664,078
Total Liabilities and Equity	\$ 1,517,334	\$ 985,340	\$ 5,257,243	\$ 7,759,917

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
ARISING FROM CASH TRANSACTIONS
June 30, 2003
(Continued)

Component Units	Totals (Memorandum Only)	
	Reporting Entity	
\$ 45,165	\$	45,165
		64,755
		50,000
		128,400
		79,143
		194,000
		120,000
		360,000
		3,396
		4,890,000
293,374		293,374
		206,145
\$ 338,539	\$	6,434,378
		785,040
70,777		949,815
\$ 70,777	\$	1,734,855
\$ 409,316	\$	8,169,233

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

MCCREARY COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

Fiscal Year Ended June 30, 2003

	General Fund Type			
	General Fund	Road and Bridge Fund	Jail Fund	Local Government Economic Assistance Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 1,587,255	\$ 1,464,585	\$ 119,142	\$ 35,141
Transfers In	422,167	106,000	330,000	60,000
AOC - Bond Receipts				
Component Unit Receipts				
Total Cash Receipts	<u>\$ 2,009,422</u>	<u>\$ 1,570,585</u>	<u>\$ 449,142</u>	<u>\$ 95,141</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 1,503,864	\$ 1,363,138	\$ 432,590	\$ 34,882
Schedule of Component Unit Expenditures				
Miscellaneous Debt Service Expenditures				
Transfers Out	425,980	290,011		30,000
Other Financing Uses:				
Capital Lease Principal Payments	39,000			23,000
Bonds:				
Principal Paid				
Interest Paid				
Administrative Fees				
Borrowed Money Repaid		25,000		
Kentucky Local Correctional Facilities Construction Authority			10,839	
Total Cash Disbursements	<u>\$ 1,968,844</u>	<u>\$ 1,678,149</u>	<u>\$ 443,429</u>	<u>\$ 87,882</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 40,578	\$ (107,564)	\$ 5,713	\$ 7,259
Cash Balance - July 1, 2002	<u>557,282</u>	<u>319,968</u>	<u>4,143</u>	<u>1,679</u>
(a)				
Cash Balance - June 30, 2003	<u>\$ 597,860</u>	<u>\$ 212,404</u>	<u>\$ 9,856</u>	<u>\$ 8,938</u>

(a) Variance of \$3,055 with prior year due to prior year voided checks.

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
Fiscal Year Ended June 30, 2003
(Continued)

Special Revenue Fund Type					
Emergency 911 Dispatch Fund	Enterprise Community Grant Fund	Smart Works Fund	Disaster Assistance Fund	ISTEA Fund	Prison Sewer Project Phase II
\$ 204,526	\$ 173,880	\$ 186,403	\$ 201,713	\$ 244,804	\$
\$ 204,526	\$ 173,880	\$ 186,403	\$ 201,713	\$ 244,804	\$
\$ 205,109	\$ 138,848	\$ 35,934	\$	\$ 244,804	\$
	29,763	49,800	192,156		
18,436					
\$ 223,545	\$ 168,611	\$ 85,734	\$ 192,156	\$ 244,804	\$ 0
\$ (19,019) 66,977	\$ 5,269 111	\$ 100,669 254,022	\$ 9,557 75	\$ 0	\$ 0 4
\$ 47,958	\$ 5,380	\$ 354,691	\$ 9,632	\$ 0	\$ 4

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
 CHANGES IN CASH BALANCES
 Fiscal Year Ended June 30, 2003
 (Continued)

	Debt Service Fund Type			Totals (Memorandum Only) Primary Government
	KADD Courthouse Construction Accounts	McCreary County Courthouse and Public Square Corporation Fund	Kentucky Association of Counties Leasing Trust Acquisition 911 Equipment Account	
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 86	\$ 29,452	\$ 98	\$ 4,247,085
Transfers In				918,167
AOC - Bond Receipts		399,118		399,118
Component Unit Receipts				
Total Cash Receipts	\$ 86	\$ 428,570	\$ 98	\$ 5,564,370
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$	\$	\$	\$ 3,959,169
Schedule of Component Unit Expenditures				
Miscellaneous Debt Service Expenditures			18	18
Transfers Out				1,017,710
Other Financing Uses:				
Capital Lease Principal Payments				80,436
Bonds:				
Principal Paid	10,000	160,000		170,000
Interest Paid	7,280	260,618		267,898
Administrative Fees		4,500		4,500
Borrowed Money Repaid				25,000
Kentucky Local Correctional Facilities Construction Authority				10,839
Total Cash Disbursements	\$ 17,280	\$ 425,118	\$ 18	\$ 5,535,570
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (17,194)	\$ 3,452	\$ 80	\$ 28,800
Cash Balance - July 1, 2002	17,194	424,833	7,163	1,653,451
Cash Balance - June 30, 2003	\$ 0	\$ 428,285	\$ 7,243	\$ 1,682,251

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN CASH BALANCES
Fiscal Year Ended June 30, 2003
(Continued)

Component Unit Fund Type					
Solid Waste Management Board Fund	Tourism Commission Fund	McCreary County Airport Board Fund	Sandhill Conservation Camp Fund	Stearns Historical Area Development Authority	Totals (Memorandum Only) Reporting Entity
\$ 49,800	\$ 49,743	\$	\$	\$	\$ 4,247,085
43,335	8,899	37,482	1,653	30,894	1,017,710
\$ 93,135	\$ 58,642	\$ 37,482	\$ 1,653	\$ 30,894	\$ 5,786,176
\$ 81,900	\$ 49,129	\$ 36,199	\$ 1,688	\$ 36,086	\$ 3,959,169
					205,002
					18
					1,017,710
					80,436
					170,000
					267,898
					4,500
					25,000
					10,839
\$ 81,900	\$ 49,129	\$ 36,199	\$ 1,688	\$ 36,086	\$ 5,740,572
\$ 11,235	\$ 9,513	\$ 1,283	\$ (35)	\$ (5,192)	\$ 45,604
18,836	20,219	53,820	675	5,588	1,752,589
(b)	(c)			(d)	
\$ 30,071	\$ 29,732	\$ 55,103	\$ 640	\$ 396	\$ 1,798,193

(b) Variance of \$4,915 with prior year audit report due to error in prior year audit.

(c) Variance of \$1,661 with prior year audit report due to error in prior year audit.

(d) Variance of \$1 with prior year audit report due to rounding.

The accompanying notes are an integral part of the financial statements.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of McCreary County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. There is not an incorporated city within McCreary County; therefore, the entities listed below cannot be included within another local government audit within McCreary County. Based upon the criteria stated in GASB 14, management has included the following as part of the reporting entity of the McCreary County Fiscal Court:

- A. McCreary County Courthouse and Public Square Corporation Fund,
- B. Kentucky Area Development District (KADD) Courthouse Construction Account,
- C. Kentucky Association of Counties Leasing Trust (KACOLT) Acquisition Account,
- D. Solid Waste Management Board Fund,
- E. Tourism Commission Fund,
- F. McCreary County Airport Board Fund,
- G. Sandhill Conservation Camp Fund,
- H. Stearns Historical Area Development Authority.

McCreary County Courthouse and Public Square Corporation

The McCreary County Courthouse and Public Square Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the fiscal court. The Corporation's governing body consists entirely of fiscal court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity is blended with that of the fiscal court.

Kentucky Area Development District (KADD) Courthouse Construction Account and Kentucky Association of Counties Leasing Trust Acquisition Account

The Kentucky Area Development District (KADD) Courthouse Construction Account and the Kentucky Association of Counties Leasing Trust Acquisition (KACOLT) Account are county accounts that are being administered by a third party administrator to provide financing for the courthouse renovation construction project and to account for lease purchase proceeds for 911 equipment. Management must include these accounts as component units, and the accounts' financial activity is blended with that of the fiscal court.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Solid Waste Management Board Fund

The Solid Waste Management Board was established by the McCreary County Fiscal Court to administer solid waste activities within the county. The activities consist of collecting a franchise fees tax, which was adopted by the McCreary County Fiscal Court, and using the proceeds to work toward cleaning up and preventing solid waste within the county. The county provides additional funding to the Solid Waste Management Board, as needed, to carry out the board's objectives. Therefore, management must include the board as a component unit, and the board's financial activity is discretely presented with that of the fiscal court.

Tourism Commission Fund

The Tourism Commission was established by the McCreary County Fiscal Court to promote tourism within the county. McCreary County is a former coal-mining town and the county promotes its former coal mining operations as a tourist attraction within the county. The county has received federal grants to revitalize the coal mining camp into a park, which creates the need for a Tourism Commission within the county. Management must include the commission as a component unit, and the commission's financial activity is discretely presented with that of the fiscal court.

McCreary County Airport Board Fund

The McCreary County Fiscal Court established the McCreary County Airport Board. The board is responsible for the building, expansion, and maintenance of an airport within the county. The fiscal court's objective is that having an airport within the county will promote industrial development to the county. Management must include the board as a component unit, and the board's financial activity is discretely presented with that of the fiscal court.

Sandhill Conservation Camp Fund

The McCreary County Fiscal Court established the Sandhill Conservation Camp. It consists of a board that was established to maintain a campground that provides campsites to tourists when they visit McCreary County. The County Judge/Executive has currently assumed responsibility for maintaining the records for this entity. Management must include the board as a component unit, and the board's financial activity is discretely presented with that of the fiscal court.

MCCREARY COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Stearns Historical Area Development Authority

The McCreary County Fiscal Court established the Stearns Historical Area Development Authority (SHADA). It was created by the fiscal court to account for receipts and expenditures relating to the project to restore and revitalize historical buildings in Stearns, Kentucky. The Stearns Community is a former coal-mining town, which is a tourist attraction for McCreary County. The property in Stearns is leased out to and is operated by the McCreary County Heritage Foundation, which is a not-for-profit organization that is legally separate from the McCreary County Fiscal Court. Therefore, management must include SHADA as a component unit, and the authority's financial activity is discretely presented with that of the fiscal court. The McCreary County Heritage Foundation is not presented as part of the fiscal court's reporting entity, since it is independent of the fiscal court.

Additional - McCreary County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting McCreary County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. McCreary County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The McCreary County General Fund Type includes the following county funds:

General Fund – used to account for the routine receipts and expenditures of the county.

MCCREARY COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

1) General Fund Type (Continued)

Road and Bridge Fund – used to account for the receipts and expenditures relating to road and bridge construction, maintenance, improvements, and administration.

Jail Fund – used to account for the receipts and expenditures relating to the county detention facility.

Local Government Economic Assistance Fund – used to account for the receipts and expenditures relating to money received from the State of Kentucky for local government economic assistance.

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The McCreary County Special Revenue Fund Type includes the following county funds:

Emergency 911 Dispatch Fund – used to account for the receipts and expenditures relating to the 911-dispatch service in the county.

Enterprise Community Grant Fund – used to account for the receipts and expenditures relating to a federal grant for social services.

Smart Works Fund – used to account for the receipts and expenditures relating to a federal grant for rural business enterprise.

Disaster Assistance Fund – used to account for the receipts and expenditures relating to a federal grant received for severe weather.

ISTEA Fund – used to account for receipts and expenditures relating to a federal grant for the renovation of the Stearns Historical Area.

Prison Sewer Project Phase II – used to account for the receipts and expenditures relating to a federal grant received to construct a new sewer line to the site of a new prison in McCreary County.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year. The McCreary County Debt Service Fund Type includes the following county funds:

MCCREARY COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

3) Debt Service Fund Type (Continued)

KADD Courthouse Construction Accounts – used to account for receipts and expenditures relating to the short-term financing of the courthouse renovation.

McCreary County Courthouse and Public Square Corporation Fund – used to account for the receipts and expenditures relating to the renovation of the County courthouse.

KACO Leasing Trust Acquisition 911 Equipment Account – used to account for the receipts and expenditures relating to lease purchase proceeds received for various projects within the County.

4) Component Units

Solid Waste Management Board Fund – used to account for the receipts and expenditures relating to the collection of solid waste within the County.

Tourism Commission Fund – used to account for the receipts and expenditures relating to the promotion of tourism within the County.

McCreary County Airport Board Fund – used to account for the receipts and expenditures relating to the County airport.

Sandhill Conservation Camp Fund – used to account for the receipts and expenditures relating to the operation of the Sandhill Camp facilities.

Stearns Historical Area Development Authority – used to account for the receipts and expenditures relating to the project to restore and revitalize the buildings in Stearns, Kentucky.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore, the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The McCreary County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the McCreary County Courthouse and Public Square Corporation. The corporation issued bonds for the addition of the judicial building, which AOC has occupied, onto the existing courthouse. The fiscal court has assumed responsibility for this debt; however, the Administrative Office of the Courts has entered into a leasing agreement with the county agreeing to pay all of the bond payments, directly to the bondholders, on behalf of the fiscal court. Therefore, the county did not budget any bond payments to be made from the county's funds.

Formal budgets are not adopted for the Kentucky Association of Counties Leasing Trust Acquisition 911 Equipment Account or the Kentucky Area Development District Courthouse Construction Account. The county owned accounts were established by a third party administrator to account for the lease purchase proceeds for 911 equipment obtained by the county and the short-term financing of the courthouse renovation project. The Department for Local Government does not require these funds to be budgeted.

Formal budgets are not adopted for the Solid Waste Management Board, the Tourism Commission, the McCreary County Airport Board, the Sandhill Conservation Camp, and the Stearns Historical Area Development Authority because these entities are component units of the fiscal court and the financial activity is not required to be included in the budget or financial statements of the primary government. The fiscal court established these entities as component units which are operated independently of the McCreary County Fiscal Court. However, they are financially dependant upon the McCreary County Fiscal Court. These entities are included as discretely presented component units on the county's financial statements.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Cash and Investments

Cash includes amounts in bank accounts.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the county securing the county's interest in the collateral.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 3. Deposits (Continued)

The county's deposits are categorized below to give an indication of the level of risk assumed by the county official as of August 31, 2002.

	<u>Bank Balance</u>
Insured by FDIC	\$ 100,000
Collateralized with securities held by pledging depository institution in the county's name	<u>1,454,667</u>
Total	<u><u>\$ 1,554,667</u></u>

Note 4. Receivables

McCreary County, in cooperation with Scott County, Tennessee, formed the Rural Enterprise Community known as Scott-McCreary Area Revitalization Team (SMART) for the purpose of increasing economic development in these two counties. As part of this effort, McCreary County established a revolving loan fund, with funds passed through from the U.S. Department of Agriculture, to encourage economic growth by making available low-interest loans to eligible businesses in an amount up to 45% of the total project, or \$150,000, whichever is less. As the loan is repaid, the County may use the funds in a manner similar to their original use. The balance of receivables due as of June 30, 2003 was as follows:

<u>Description</u>	<u>Monthly Payments</u>	<u>Loan Term Years</u>	<u>Interest Rate</u>	<u>Ending Date</u>	<u>Principal Balance June 30, 2003</u>
SMART Works Fund:					
Foothills Country Meat, Inc.	\$ 966	6	5.00%	January 1, 2004	\$ 6,653
Floral Creations by Sharon	156	5	5.00%	June 1, 2004	1,966
Big South Fork Scenic Rail	1,887	5	5.00%	October 1, 2004	30,909
* B & D Printing, LLC	184	5	5.00%	November 1, 2007	8,995
Debra Newell d/b/a Deblar Signs	424	10	7.00%	December 1, 2010	29,858
Shepard's Snacks	453	5	5.00%	March 1, 2006	13,677
Stearn's Lumber Co., LLC	864	10	7.50%	February 1, 2011	60,769
McCreary County Funeral Home	1,110	10	6.00%	July 1, 2011	63,296
** Little Lambs Child Care	227	10	6.50%	June 1, 2012	18,783
** McCreary County Hardwoods	2,831	5	5.00%	June 1, 2007	<u>125,226</u>
Total Receivables					<u><u>\$ 360,132</u></u>

* and ** See next page

MCCREARY COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2003
 (Continued)

Note 4. Receivables (Continued)

- * B & D Printing, LLC borrowed \$9,715 on November 1, 2002 from the Smart Works Fund. Of this amount, \$5,215 was used to payoff an existing loan with the Smart Works Program.
- ** Loans made out by the Smart Works Program during FYE June 30, 2002, but not included as a receivable in the prior year audit report.

Note 5. Short-Term Debt

In August 2001, the Stearns Historical Area Development Authority obtained a \$50,000 line of credit from a local financial institution. The line of credit is a demand note and the original due date was August 2002. However, this has been renewed for an additional year, which will make the new due date August 2003. The interest rate on this line of credit was 6.75% at June 30, 2003. The outstanding principal balance at June 30, 2003 was \$45,165.

Note 6. Capital Lease Agreements

- A. On May 3, 1999, the McCreary County Fiscal Court entered into a 10-year leasing agreement with KACo Leasing Trust for the purchase of voting machines. The principal payments are due annually by January 20th and mature in March 2014; interest payments are due every six months. The principal balance as of June 30, 2003 was \$64,755. Debt service requirements for fiscal years ending June 30, 2004 and thereafter are as follows:

Date	Interest	Principal
June 30, 2004	\$ 3,289	\$ 10,000
June 30, 2005	2,746	10,000
June 30, 2006	2,204	10,000
June 30, 2007	1,638	11,000
June 30, 2008	1,041	11,000
June 30, 2009	404	12,755
Total	<u>\$ 11,322</u>	<u>\$ 64,755</u>

- B. On November 8, 1994, the McCreary County Fiscal Court entered into a 10-year lease agreement for \$200,000 with the Bank of McCreary County to provide for the permanent financing of the acquisition, construction, installation, renovation and equipping of a maintenance garage along with paying off a \$170,000 loan of the Road and Bridge Fund. Principal payments are due annually by November 1. Interest payments are due semiannually by November 1 and May 1. The principal balance as of June 30, 2003 was \$50,000. Debt service requirements for the fiscal years ending June 30, 2004 and thereafter are as follows:

Date	Interest	Principal
June 30, 2004	\$ 2,625	\$ 25,000
June 30, 2005	875	25,000
Total	<u>\$ 3,500</u>	<u>\$ 50,000</u>

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. Capital Lease Agreements (Continued)

- C. On May 29, 1998, McCreary County Fiscal Court entered into a 7-year leasing agreement with KACo Leasing Trust for the purchase of 911 equipment in the amount of \$300,000. McCreary County Fiscal Court refinanced the remaining principal balance of \$140,000 on the lease June 13, 2002 for a ten-year period. The principal balance as of June 30, 2003, was \$128,400. Debt service requirements for fiscal years ending June 30, 2004, and thereafter are as follows:

Date	Interest	Principal
June 30, 2004	\$ 6,363	\$ 12,100
June 30, 2005	5,428	12,600
June 30, 2006	4,802	13,100
June 30, 2007	4,152	13,600
June 30, 2008	3,475	14,200
2009 to 2012	6,542	62,800
Total	<u>\$ 30,762</u>	<u>\$ 128,400</u>

- D. On April 30, 2002, the McCreary County Fiscal Court entered into a 10-year leasing agreement for \$85,979 with KACo Leasing Trust for the purchase of advanced life saving equipment and to make the required principal payment on the original lease that was refinanced in Item C above. Principal payments are due annually on January 20 and interest payments are due monthly. The lease is scheduled to be paid off in January 2012. The principal balance as of June 30, 2003 was \$79,143. Debt service requirements for the fiscal years ending June 30, 2004 and thereafter are as follows:

Date	Interest	Principal
June 30, 2004	\$ 3,689	\$ 7,178
June 30, 2005	3,334	7,536
June 30, 2006	2,962	7,913
June 30, 2007	2,570	8,309
June 30, 2008	2,159	8,724
2009 to 2012	4,102	39,483
Total	<u>\$ 18,816</u>	<u>\$ 79,143</u>

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. Capital Lease Agreements (Continued)

- E. On December 30, 1999, the McCreary County Fiscal Court entered into a 10-year leasing agreement with KACo Leasing Trust for the purchase of road equipment. Principal payments are due annually by July 20 and interest payments are due monthly. The principal balance as of June 30, 2003 was \$ 194,000. Debt service requirements for the fiscal years ending June 30, 2004 and thereafter are as follows:

Date	Interest	Principal
June 30, 2004	\$ 10,074	\$ 24,000
June 30, 2005	8,615	25,000
June 30, 2006	7,097	26,000
June 30, 2007	5,467	28,000
June 30, 2008	3,775	29,000
2009 to 2010	2,118	62,000
Total	<u>\$ 37,146</u>	<u>\$ 194,000</u>

- F. On June 7, 2002, the McCreary County Fiscal Court entered into a 5-year leasing agreement with KACo Leasing Trust for the purchase of two (2) new ambulances. Principal payments are due annually by January 20 and interest payments are due monthly. The principal balance as of June 30, 2003 was \$ 120,000.

Debt service requirements for the fiscal years ending June 30, 2004 and thereafter are as follows:

Date	Interest	Principal
June 30, 2004	\$ 4,990	\$ 30,000
June 30, 2005	3,597	30,000
June 30, 2006	2,205	30,000
June 30, 2007	812	30,000
Total	<u>\$ 11,604</u>	<u>\$ 120,000</u>

- G. On September 27, 2001, the McCreary County Fiscal Court entered into a 20-year leasing agreement with Kentucky Area Development District (KADD) for the renovation of the courthouse (elevator and wheelchair ramps). The principal payments are due annually by September 20 and mature in September 2021; interest payments are due every six months starting in March 2002. The principal balance as of June 30, 2003 was \$360,000. Debt service requirements for the fiscal years ending June 30, 2004 and thereafter are as follows:

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. Capital Lease Agreements (Continued)

G. (Continued)

Date	Interest	Principal
June 30, 2004	\$ 20,343	\$ 10,000
June 30, 2005	19,868	10,000
June 30, 2006	19,261	15,000
June 30, 2007	18,549	15,000
June 30, 2008	17,810	15,000
2009 to 2013	77,155	80,000
2014 to 2018	51,350	105,000
2019 to 2021	14,480	110,000
Total	<u>\$ 238,816</u>	<u>\$ 360,000</u>

Note 7. Long-Term Debt

- A. On August 6, 1993, the McCreary County Solid Waste Management District entered into an Assistance Agreement with the Kentucky Infrastructure Authority for \$105,212. Of this amount, \$50,000 was a non-repayable grant and the remaining \$55,212 was a revolving loan. These funds were used to purchase an existing transfer station, which had been leased by the McCreary County Fiscal Court from the Kentucky Association of Counties Leasing Trust Program, and the balance of the loan was used to purchase a conveyor system. The agreement requires the loan amount of \$55,212, to be repaid with semiannual declining payments due June 1 and December 1 over a ten-year period at an interest rate of 4.60%. Debt service requirements for the fiscal years ending June 30, 2004 and thereafter are as follows:

Date	Scheduled Interest and Fees	Principal
June 30, 2004	\$ 81	\$ 3,396

- B. The McCreary County Courthouse and Public Square Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of constructing the Justice Center, which is attached to the courthouse and obtaining office rental space for the AOC at the Justice Center. In November of 1999, the McCreary County Courthouse and Public Square Corporation issued First Mortgage Revenue Bonds in the amount of \$5,205,000 in order to construct the McCreary County Justice Center.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 7. Long-Term Debt (Continued)

B. (Continued)

The McCreary County Courthouse and Public Square Corporation and the Kentucky Area Development Districts Financing Trust are acting as agents for the AOC in order to plan, design, construct, manage and maintain the Justice Center. The McCreary County Courthouse and Public Square Corporation and the Kentucky Area Development Districts Financing Trust expect annual rentals from the AOC for use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under terms of the lease, the AOC has agreed to pay directly to the paying agent bank the use allowance payments as provided in the lease. The lease agreement is renewable each year. The McCreary County Courthouse and Public Square Corporation and the Kentucky Area Development Districts Financing Trust are dependent upon the use allowance payment in order to meet the debt service for the bonds.

The use allowance payment commences with occupancy of the Justice Center by the AOC. The AOC with the execution of the lease has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until September 1, 2020, but the lease does not legally obligate the AOC to do so.

The debt service requirements for the First Mortgage Revenue Bonds are presented as follows:

Date	Interest Payments	Principal Payment
June 30, 2004	\$ 252,120	\$ 170,000
June 30, 2005	243,236	175,000
June 30, 2006	233,966	185,000
June 30, 2007	224,181	195,000
June 30, 2008	213,881	205,000
2009 to 2013	895,594	1,195,000
2014 to 2018	540,730	1,560,000
2019 to 2022	102,195	1,205,000
Total	<u>\$ 2,705,903</u>	<u>\$ 4,890,000</u>

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 7. Long-Term Debt (Continued)

- C. On March 15, 1999, the Stearns Historical Area Development Authority (Component Unit of the County) refinanced a \$341,115 loan for 15 years at approximately 6% interest until March 15, 2000. The loan is due in full April 15, 2014. The future interest rates will be 1.75% under the New York prime rate (2.5% at June 30, 2003). Monthly payments of \$2,500 are due by the 15th day of each month. The outstanding principal balance at June 30, 2003 was \$293,374. The purpose of the loan was to finance the renovation cost of several facilities in Stearns, Kentucky. The Stearns Historical Area Development Authority leases the property to the McCreary County Heritage Foundation (not-for-profit organization), which operates the property as a historic attraction. The terms of the lease agreement state that the McCreary County Heritage Foundation will make the required monthly payments due on the loan. However, the loan balance was paid off in full on February 5, 2004.

Note 8. Long-Term Participation Agreement

The Kentucky Local Correctional Facilities Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The authority issued \$628,917 of revenue bonds at various interest rates (7.0% through 7.4%), of which the County has agreed to pay \$316,534, principal and a proportional share of interest on the issue. Revenue bonds outstanding as of June 30, 2003 totaled \$206,145. Debt service requirements for the fiscal years ending June 30, 2004 and thereafter are as follows:

Date	Scheduled	
	Interest and Fees	Principal
June 30, 2004	\$ 13,866	\$ 11,586
June 30, 2005	13,040	12,385
June 30, 2006	12,156	13,239
June 30, 2007	11,210	14,153
June 30, 2008	10,199	15,130
2009 to 2113	33,171	92,872
2014 to 2017	3,301	46,780
Total	<u>\$ 96,943</u>	<u>\$ 206,145</u>

Note 9. Insurance

For the fiscal year ended June 30, 2003, McCreary County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

MCCREARY COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 10. Subsequent Events

On April 13, 2004, the McCreary County Fiscal Court adopted an Occupational Tax Ordinance. The ordinance sets the tax rate at 1% of earnings for employees and businesses. The fiscal court will re-evaluate the ordinance in six months, three years, and again in three more years.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

MCCREARY COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

Fiscal Year Ended June 30, 2003

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 1,404,243	\$ 1,587,255	\$ 183,012
Road and Bridge Fund	1,456,621	1,464,585	7,964
Jail Fund	114,772	119,142	4,370
Local Government Economic Assistance Fund	37,835	35,141	(2,694)
<u>Special Revenue Fund Type</u>			
Emergency 911 Dispatch Fund	204,497	204,526	29
Enterprise Community Grant Fund	519,796	173,880	(345,916)
Smart Works Fund	203,852	186,403	(17,449)
Disaster Assistance Fund	365,823	201,713	(164,110)
ISTEA Fund	2,240,000	244,804	(1,995,196)
Prison Sewer Project Phase II	1,843,957		(1,843,957)
Totals	<u>\$ 8,391,396</u>	<u>\$ 4,217,449</u>	<u>\$ (4,173,947)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 8,391,396
Add: Budgeted Prior Year Surplus			1,204,260
Borrowed Money			1,635,500
Transfers In			901,094
Less: Transfers Out			(593,065)
Other Financing Uses			<u>(1,861,318)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 9,677,867</u>

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SCHEDULE OF OPERATING REVENUE

MCCREARY COUNTY
SCHEDULE OF OPERATING REVENUE

Fiscal Year Ended June 30, 2003

Revenue Categories	GOVERNMENTAL FUND TYPE			
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type
Taxes	\$ 713,882	\$ 509,835	\$ 204,047	\$
In Lieu Tax Payments	336,693	336,693		
Excess Fees	19,209	19,209		
Licenses and Permits	45,859	45,859		
Intergovernmental Revenues	2,317,198	1,649,892	667,306	
Charges for Services	563,797	563,797		
Miscellaneous Revenues	172,667	63,703	108,964	
Interest Earned	77,780	17,135	31,009	29,636
Total Operating Revenue	<u>\$ 4,247,085</u>	<u>\$ 3,206,123</u>	<u>\$ 1,011,326</u>	<u>\$ 29,636</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

MCCREARY COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

Fiscal Year Ended June 30, 2003

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 561,354	\$ 522,821	\$ 38,533
Protection to Persons and Property	1,173,484	994,871	178,613
General Health and Sanitation	31,126	31,126	
Recreation and Culture	32,450	26,345	6,105
Transportation Facilities and Services	64,743	50,034	14,709
Roads	994,485	757,986	236,499
Debt Service	67,669	39,852	27,817
Capital Projects	819,090	461,194	357,896
Administration	500,952	450,245	50,707
 Total Operating Budget - General Fund Type	 \$ 4,245,353	 \$ 3,334,474	 \$ 910,879
 Other Financing Uses:			
Borrowed Money-			
Kentucky Advanced Revenue			
Program - Principal	1,635,500		1,635,500
Capital Lease Agreement-			
Principal on Lease-			
Ambulances	30,000	30,000	
Road Equipment	23,000	23,000	
Voting Machines	9,000	9,000	
Borrowed Money-			
Road Garage	25,000	25,000	
Holding Company Bonds-			
Courthouse Renovation - Principal	10,000		10,000
Kentucky Local Correctional Facilities			
Construction Authority - Principal	10,839	10,839	
Transfer Out to the McCreary County			
Tourism Commission	19,980	19,980	
 TOTAL BUDGET - GENERAL FUND TYPE	 \$ 6,008,672	 \$ 3,452,293	 \$ 2,556,379

MCCREARY COUNTY
 COMPARATIVE SCHEDULE OF
 FINAL BUDGET AND BUDGETED EXPENDITURES
 Fiscal Year Ended June 30, 2003
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 426,318	\$ 36,703	\$ 389,615
Protection to Persons and Property	195,788	154,757	41,031
General Health and Sanitation	49,800		49,800
Recreation and Culture	33,012		33,012
Debt Service	16,794	16,794	
Capital Projects	4,284,448	380,622	3,903,826
Administration	426,354	35,819	390,535
Total Operating Budget - Special Revenue Fund Type	\$ 5,432,514	\$ 624,695	\$ 4,807,819
Other Financing Uses:			
KACO Leasing Trust Equipment Lease-			
911 Capital Lease Principal	6,836	6,836	
911 Capital Lease Principal	11,600	11,600	
Transfer Out to the Solid Waste Management Board	49,800	49,800	
Transfer Out to the McCreary County Tourism Commission	29,763	29,763	
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	<u>\$ 5,530,513</u>	<u>\$ 722,694</u>	<u>\$ 4,807,819</u>

SCHEDULE OF COMPONENT UNIT EXPENDITURES

MCCREARY COUNTY
SCHEDULE OF COMPONENT UNIT EXPENDITURES

Fiscal Year Ended June 30, 2003

	Solid Waste Management Board Fund	Tourism Commission Fund	McCreary County Airport Board Fund	Sandhill Conservation Camp Fund	Stearns Historical Area Development Authority Fund	Total Component Units
Lease Payments	\$	\$	\$	\$	\$ 36,086	\$ 36,086
Utilities	2,392	1,429	895			4,716
Advertising		25,381				25,381
Postage		1,750				1,750
Payroll	6,705	10,792				17,497
Construction Costs			35,059			35,059
Maintenance	621			1,688		2,309
Loan Payment	3,485					3,485
Contract Labor	21,790					21,790
Buy Back Program	10,480					10,480
Clean-up	23,727					23,727
Miscellaneous	12,700	9,777	245			22,722
Totals	<u>\$ 81,900</u>	<u>\$ 49,129</u>	<u>\$ 36,199</u>	<u>\$ 1,688</u>	<u>\$ 36,086</u>	<u>\$ 205,002</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Blaine Phillips, McCreary County Judge/Executive
Members of the McCreary County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of McCreary County, Kentucky, as of and for the year ended June 30, 2003, and have issued our report thereon dated August 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether McCreary County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs.

- 2003-04 The County Should Have A Written Agreement To Protect Deposits

Internal Control Over Financial Reporting

In planning and performing our audit, we considered McCreary County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect McCreary County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

- 2003-01 The Original Budget And Budget Amendments Should Be Properly Recorded In Financial Statements
- 2003-02 The County Should Properly Prepare Quarterly Financial Statements
- 2003-03 The County Treasurer Should Prepare A Federal Monies Worksheet
- 2003-05 The Component Units Lack An Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the above reportable conditions to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 27, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Blaine Phillips, McCreary County Judge/Executive
Members of the McCreary County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of McCreary County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. McCreary County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of McCreary County's management. Our responsibility is to express an opinion on McCreary County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about McCreary County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of McCreary County's compliance with those requirements.

As described in Reference Number 2003-6 and Reference Number 2003-7, in the accompanying schedule of findings and questioned costs, McCreary County did not comply with requirements regarding period of availability of federal funds and subrecipient monitoring that are applicable to its U.S. Housing And Urban Development - Disaster Recovery Initiative Grant and its U.S. Department Of Transportation - Intermodal Surface Transportation Efficiency Act Grant.

In our opinion, except for the noncompliance described in the preceding paragraph, McCreary County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of McCreary County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered McCreary County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect McCreary County's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

- Reference Number 2003-06: The County Should Comply With The Period Of Availability On U.S. Housing And Urban Development - Disaster Recovery Initiative Grant
- Reference Number 2003-07: The County Should Properly Monitor Grants Passed Down To Subrecipients

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
August 27, 2004

FINDINGS AND QUESTIONED COSTS

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2003

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of McCreary County.
2. Four reportable conditions disclosed during the audit of the financial statements are reported in the Independent Auditor's Report. All of the conditions are reported as material weaknesses.
3. One instance of noncompliance material to the financial statements of McCreary County was disclosed during the audit.
4. Two reportable conditions disclosed during the audit of the major federal awards programs are reported in the Independent Auditor's Report. The conditions are reported as material weaknesses.
5. The auditor's report on compliance for the audit of the major federal awards programs for McCreary County expresses a qualified opinion.
6. Audit findings relative to the major federal awards programs for McCreary County are reported in Part C of this schedule.
7. The programs tested as major programs were: U.S. Department of Housing and Urban Development – Disaster Recovery Initiative (CFDA# 14.unknown) and U.S. Department of Transportation – Transportation Enhancement Activities (CFDA # 20.205).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. McCreary County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITIONS

Reference Number 2003-01

The Original Budget And Budget Amendments Should Be Properly Recorded In Financial Statements

We found numerous instances where the original budget and the budget amendments for revenue were either not posted or were improperly posted in the financial records, thereby incorrectly reported in the quarterly financial statement. This condition allowed inaccurate financial reports to be prepared, used by the fiscal court, and filed with the Department for Local Government. We recommend that the original budget and the budget amendments be properly posted, reconciled, and reported in the financial records and quarterly reports.

County Judge/Executive Blaine Phillips' Response:

To correct this oversight, all financial reports will be double checked independently of the preparer. I believe this will solve errors of omission.

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2003
(Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

REPORTABLE CONDITIONS (Continued)

Reference Number 2003-02

The County Should Properly Prepare Quarterly Financial Statements

We found numerous errors in the county's 4th Quarter Financial Report for operating revenues. The receipts and expenditures on the front page of the 4th Quarter Financial Report for the ISTEAFund did not agree with the supporting schedules attached to the report. Receipts and expenditures were overstated by \$26,367. The schedule of receipts for the Road Fund, Jail Fund, LGFA Fund, 911 Emergency Dispatch Fund, Prison Sewer Project Phase II Fund, Enterprise Community Grant Fund, SMART Works Fund, Disaster Assistance Fund, and the ISTEAFund did not correctly add up. We recommend that the county treasurer properly post receipts and expenditures, and that she report the correct totals in the future in order for the county's financial reports to be properly stated.

County Judge/Executive Blaine Phillips' Response:

Many of these errors were discovered to be caused by the spreadsheet template being used, complicated by the fact that reports were not being double checked manually. When the spreadsheet was cleared, only contents were being affected. Formulas were still in place within the template and were causing calculation errors that were not discovered. All reports will now be double checked manually to prevent these kinds of errors.

Reference Number 2003-03

The County Treasurer Should Prepare A Federal Monies Worksheet

The county treasurer should prepare a federal monies worksheet that details the federal grants received and expended during the fiscal year. It should also contain grant numbers, CFDA numbers, federal agencies making the awards, state pass through agencies, and program names. All Counties must have a Single Audit performed by March 31, following the fiscal year end if they expend in excess of \$300,000 of federal funds. Auditors use this worksheet in order to schedule county audits subject to Single Audit requirements. If the Federal Monies Worksheet is not prepared, then the auditors cannot make a clear determination of whether or not a Single Audit is necessary. When required, if a Single Audit is not performed by the deadline, the county could be in danger of losing federal funding in the future. We recommend that this worksheet be properly prepared in the future.

County Judge/Executive Blaine Phillips' Response:

In the future, the County Treasurer will prepare a Federal Monies Worksheet.

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2003
(Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

REPORTABLE CONDITIONS (Continued)

Reference Number 2003-04

The Component Units Lack An Adequate Segregation Of Duties

The component units of the McCreary County Fiscal Court have a weakness in their internal controls due to a lack of segregation of duties. We recommend that for each of the component units, the following be performed:

- A. A qualified office employee independent of check writing and posting duties should match purchase orders to checks and invoices. Initial the purchase orders and invoices by this person, and making sure the invoices are marked paid, can be shown as evidence of segregation of duties.
- B. The person opening mail should keep a listing of all checks received for that day, detailing date received, the check amount, who it is from, and what the check is for.
- C. The person preparing the bank reconciliation should be independent of the person responsible for receiving and posting of receipts and disbursing and posting of disbursements.
- D. To have better internal controls, it is a best practice to keep the receipt of cash, the disbursements of cash, and the posting of cash to the ledgers delegated to separate individuals.
- E. The Component Unit Boards should maintain minutes of all board meetings. All payment of invoices, grants, budget approvals, financial statement approvals, etc. should be recorded in the minutes. Monthly financial reports should be submitted and reviewed by the boards so that they can properly monitor activity of the board. Monthly financial reports should also be submitted and approved by the fiscal court. This will provide a check over the accounting function.
- F. An annual financial statement should be presented to the fiscal court each fiscal year for review and approval.
- G. An annual operating budget should be presented to the fiscal court each fiscal year for review and approval.

County Judge/Executive Blaine Phillips' Response:

The above recommendation will be incorporated within the units.

MCCREARY COUNTY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Fiscal Year Ended June 30, 2003
 (Continued)

B. FINDINGS - FINANCIAL STATEMENTS AUDIT (Continued)

NONCOMPLIANCES

Reference Number 2003-05

The County Should Have A Written Agreement To Protect Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of August 31, 2002, the county had bank deposits of \$1,554,667; FDIC insurance of \$100,000; and collateral pledged or provided of \$1,946,295. Even though the county obtained sufficient collateral of \$1,946,295, there was no written agreement between the county and the depository institution, signed by both parties, securing the county's interest in the collateral. We recommend the county enter into a written agreement with the depository institution to secure the county's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, (c) an official record of the depository institution.

County Judge/Executive Blaine Phillips' Response:

This agreement will be signed by both parties – County and depository institution.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
 AUDIT

Reference Number 2003-06

The County Should Comply With The Period Of Availability On U.S. Housing And Urban
 Development - Disaster Recovery Initiative Grant

The county did not comply with the period of availability on the U.S. Housing and Urban Development – Disaster Recovery Initiative Grant (CFDA # 14.unknown, Grant # 98-102), passed through the State Department for Local Government. The grant agreement (Grant #98-102) states "The project shall be completed by the Recipient no later than June 30, 2002. The project may be reauthorized by the commonwealth, for additional periods not to exceed two years per authorization, but the project shall not exceed thirty-six (36) months from the effective date of this Grant Agreement." The county could not provide any documentation stating that the county made a request or that the commonwealth of Kentucky approved a reauthorization. As a result of the period of availability not being complied with, the reconstruction of drainage structures throughout

MCCREARY COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2003
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT (Continued)

Reference Number 2003-06 (Continued)

The County Should Comply With The Period Of Availability On U.S. Housing And Urban Development - Disaster Recovery Initiative Grant

the county was delayed, which prevented citizens of the county from receiving the benefits derived from the project in a timely manner. We recommend that the county contact the federal awarding agency and develop a corrective action plan. The corrective action plan should outline steps to be taken in the future, which will prevent noncompliance with the period of availability.

County Judge/Executive Blaine Phillips' Response:

No response.

Reference Number 2003-07

The County Should Properly Monitor Grants Passed Down To Subrecipients

The county did not monitor the U.S. Department of Transportation – Intermodal Surface Transportation Efficiency Act Grant (CFDA #20.205, Grant # C-02181611), passed through the State Transportation Cabinet, which was passed down to the McCreary County Heritage Foundation. The Office of Management and Budget (OMB) requires that grants passed through to subrecipients be monitored for compliance with the grant terms as well as the compliance requirements required by OMB Circular A-133 Compliance Supplement. The county could not provide sufficient documentation that would indicate that the county is monitoring the grant as required by OMB. In addition, the Heritage Foundation has appointed one county employee to its board. However, this employee does not attend all meetings of the Heritage Foundation and a replacement is not sent. When asked by auditors about the grant, we were informed that we would have to contact the Heritage Foundation because county employees knew very little about the grant. When asked if the county monitored the grant, we were informed that the county was unaware that they are required to monitor the grant for compliance. We recommend that the county develop a plan of action, which will outline the steps that the county will take on future grants to subrecipients, in order to comply with the monitoring requirements.

County Judge/Executive Blaine Phillips' Response:

The County Treasurer will maintain oversight as required by OMB.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

MCCREARY COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2003

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Housing and Urban Development</u>		
Passed-Through State Department For Local Government: Disaster Recovery Initiative Program (CFDA #14.unknown)	98-102	\$ 150,000
Total U.S. Department of Housing and Urban Development		<u>\$ 150,000</u>
<u>U.S. Department of Transportation</u>		
Passed-Through State Transportation Cabinet: Transportation Enhancement Activities Program (CFDA #20.205)	C-02369498	\$ 244,804
Total U.S. Department of Transportation		<u>\$ 244,804</u>
<u>National Oceanic and Atmospheric Administration</u>		
Passed-Through Eastern Kentucky PRIDE, Inc. PRIDE Community Grant Program (CFDA #11.469)	Unknown	\$ 46,428
Total National Oceanic and Atmospheric Administration		<u>\$ 46,428</u>

Federal Grantor Program Title	Pass-Through
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MCCREARY COUNTY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003
(Continued)

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grants- Coordinator Salary (CFDA #83.503)	98-102	\$ 8,171
Total U.S. Federal Emergency Management Agency		<u>\$ 8,171</u>
<u>U.S. Department of Agriculture</u>		
Direct Program:		
Enterprise Funds Program (CFDA #10.769)	Not Applicable	\$ 85,734
Passed Through State Department of Finance and Administration Cabinet:		
Rural Business Enterprise Grant (CFDA #10.769)	G-9501-KY-ECRU	\$ 168,611
Total U.S. Department of Agriculture		<u>\$ 254,345</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 703,748</u></u>

MCCREARY COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2003

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of McCreary County, Kentucky, and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - As required by this grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

Note 3 - The federal expenditures for U.S. Department of Transportation – Transportation Enhancement Activities Grant consist of \$244,805 of expenditures that were passed down to the McCreary County Heritage Foundation during Fiscal Year Ended June 30, 2003. The total federal amount of the grant is \$1,500,000. The grant number is C-02369498.

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SUMMARY OF PRIOR AUDIT FINDINGS

MCCREARY COUNTY
SUMMARY OF PRIOR AUDIT FINDINGS

Fiscal Year Ended June 30, 2003

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

The County Should Require Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Deposits

This has been partially corrected.

2000 - 001 Passed-Through State Department Of Military Affairs, Public Assistance Grants - 1998 Severe Weather - CFDA #83.544; Grant Number FEMA - 1207-DR-KY #147-00000.

Federal Emergency Management Agency (FEMA) Officials Should Review The Appropriateness Of Lease Purchase Payments Charged To Disaster Survey Reports (DSR's)

In July 1998, the county entered into a one-year lease-purchase agreement with the Kentucky Association of Counties Leasing Trust (KACOLT) for \$340,000 to purchase road equipment to be used for FEMA disaster work. These lease payments (or a portion thereof) were charged to various DSRs. We question the appropriateness of these charges as the lease agreement included the purchase of a 1999 F450 flatbed truck and a 1999 F350 crew cab truck, which were not purchased. In addition, on August 5, 1999, the county purchased a 1999 Dodge pickup truck for \$22,898 from KACOLT acquisition account. This truck was not approved in the original lease agreement. We question the appropriateness of these charges on the FEMA projects and recommend FEMA officials review these expenditures during their final inspections of these projects and determine the pro rata portion of the payments that should be charged to the DSRs.

County Judge/Executive's Response:

No response.

Auditor's Reply:

The County Judge/Executive should follow-up with FEMA on the FY 01 finding. A corrective action plan should be developed by the county and approved by FEMA to resolve this finding.

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CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

MCCREARY COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2003

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

MCCREARY COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2003

The McCreary County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in cursive script, reading "Blaine Phillips", written over a horizontal line.

Blaine Phillips
County Judge/Executive

A handwritten signature in cursive script, reading "Donna Ross", written over a horizontal line.

Donna Ross
County Treasurer

